

# FISCAL NOTE

**Bill #:** HB 4

**Title:** Quality schools interim committee school funding model

**Primary Sponsor:** Wagman, P

**Status:** As Introduced

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Sponsor signature

\_\_\_\_\_  
Date

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David Ewer, Budget Director

\_\_\_\_\_  
Date

## Fiscal Summary

	<b><u>FY 2006 Difference</u></b>	<b><u>FY 2007 Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$25,583,334	\$81,044,666
<b>Revenue:</b>		
General Fund	\$0	(\$69,440,993)
<b>Net Impact on General Fund Balance:</b>	(\$25,583,334)	(\$152,318,993)

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs an appropriation

## Fiscal Analysis

### ASSUMPTIONS:

#### **Office of Public Instruction**

1. The average number belonging (ANB) for a school district in FY 2007 is the current year ANB or a 3-year average ANB, whichever generates the highest maximum general fund budget. The ANB used for budgeting purposes in FY2007 is estimated to be as follows:

#### **FY 2007**

K-6 ANB	72,415
7-8 ANB	24,547
9-12 ANB	<u>50,199</u>
Total ANB	147,161

2. The basic and per-ANB entitlements are set as follows:

	<b><u>FY 2007</u></b>
Basic entitlement Elementary	\$20,718
Basic entitlement High School	\$230,199
Per-ANB entitlement Elementary	\$4,456
Per-ANB entitlement High School	\$5,704
Direct State Aid Percentage	44.7%

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3. The statewide taxable valuation (net of tax increment districts) is \$1,897,655,540 for TY2005. The taxable valuation will increase by 3.5 percent in TY 2006.
4. Under current statute, direct state aid will be \$351.11 million in FY 2007. Guaranteed tax base aid to K-12 public schools will be \$112.29 million in FY 2007. County retirement costs will be \$24.46 million in FY 2007.
5. The state special education appropriation is assumed to be \$39.35 million in FY 2007, as appropriated in HB 2.
6. HB 4 creates nine components in the basic system of free quality public elementary and secondary schools: a per-student component, a classroom component, an accredited program component, a building operation and maintenance component, a special education component, a transportation component, a capital projects component, a debt service component and an Indian education for all component.
7. The per-student and classroom components rely on a set of size categories based upon enrollment that includes six elementary district size categories and five high school size categories. HB 4 applies a specific student-teacher ratio to each of the various size categories that is the basis for determining the number of classroom units for each school district. The following table outlines the salaries contained in HB 4.

PER CLASSROOM AMOUNTS	SALARIES
Elementary <41	\$27,503
Elementary 41 – 150	\$33,437
Elementary 151 – 400	\$41,416
Elementary 401 – 850	\$44,585
Elementary 851 – 2,500	\$44,355
Elementary 2,501 and greater	\$47,688
High Schools <75	\$37,094
High Schools 75 – 200	\$40,017
High Schools 201 – 400	\$42,391
High Schools 401 – 1,250	\$44,949
High Schools 1,251 and greater	\$49,658

8. Under HB 4, direct state aid will total \$334.469 million for FY 2007. Guaranteed tax base aid to K-12 public schools will be \$175.505 million in FY 2007.
9. It is estimated that 90% of \$46.574 million of new on-going monies provided to school districts in FY 2007 will be directed into salaries. Benefits charged to the county retirement fund are estimated to be 15.5% of salaries. The state GTB share of the retirement costs is estimated to be 27% or \$1.754 million (\$46,980,000 x 90% x 15.5% x 27%). The remaining \$4.743 million will be paid by county taxpayers.

### School for the Deaf and Blind

10. HB 4 adds funding through a statutory appropriation for the School for the Deaf and Blind by \$0.750 million as follows:

Salary adjustment to bring licensed professionals to parity	\$319,949
Expansion of Outreach for Hearing Impaired (6 consultants, 4.61 FTE)	430,051
Total	<hr/> \$750,000

### Department of Revenue

1. Section 30 of this bill allows taxpayers to take a new \$250 *non-refundable* one-time credit against Montana income taxes for property taxes paid on the taxpayer's primary residence during 2006.
2. Section 30(1) specifies that the credit is against income taxes in the amount of \$250 for property taxes paid on the taxpayer's primary residence. This section is not clear as to who would qualify for the credit. Specifically, must the primary residence be owned by the income tax payer, and does the income taxpayer actually have to pay property tax on the residence to qualify. (See technical notes 7, 8, 9, and 11.)

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3. For purposes of this fiscal note, it is assumed that the credit applies to all owners of owner-occupied dwellings; renters are not entitled to the credit. *However, if this section of law were interpreted to mean that anyone with a primary residence in Montana is eligible for the credit, then the revenue impacts associated with this section of the bill would be significantly larger.* (See technical notes 7, 8, 9, and 11.)
4. Section 30 does not tie the credit to the amount of property taxes paid. Therefore, it is assumed that any taxpayer who paid any amount of property tax on their primary residence would be able to claim the full \$250 credit, or as much of the \$250 as possible to offset their income tax liability.
5. Section 30 does not limit the credit to one per residence. Both spouses in a married couple are considered income taxpayers, and both are assumed to be eligible and will claim the credit.
6. It is assumed that both spouses in a couple filing separately will claim a credit, and a married couple filing jointly will claim two credits.
7. According to figures from the 2004 American Community Survey, there are 252,597 owner-occupied primary residences in Montana. This is assumed to be the total number of residences potentially eligible for the credit.
8. For tax year 2004, a total of 207,096 full and part-year income tax filers claimed an itemized deduction for property taxes. This includes 33,272 married couples filing separately, who are assumed to occupy the same residence. Therefore, the number of residences occupied by taxpayers who claimed an itemized deduction for property taxes is 173,824 (207,096 – 33,272).
9. Subtracting the number of residences occupied by itemizers from the total universe of owner-occupied residences results in 78,773 residences (252,597-173,824). It is assumed this is the number of residences occupied by income tax filers claiming the standard deduction who would be eligible for the new \$250 property tax credit proposed in this bill.
10. Residences occupied by taxpayers who do not itemize deductions are assumed to have the same percentage of married couples filing jointly and filing separately as residences occupied by taxpayers who do itemize. This is 28.95% for married couples filing jointly and 19.14% for married couples filing separately. There are therefore 22,808 married couples filing jointly and 15,078 married couples filing separately among non-itemizers who would be eligible for the proposed tax credit.
11. The following table shows the percentages of taxpayers who claimed a deduction for property taxes that were married couples filing jointly with tax liability above and below \$500 and of all other filers with tax liability above and below \$250. It shows this separately for taxpayers reporting in columns A and B of the tax forms. For example, 13.9% of taxpayers who claimed a deduction for property taxes and reported in column A were married couples filing jointly with tax liability of \$500 or more.

Tax	Reporting in Column	
	A	B
Married Joint		
\$500 or more	13.90%	
less than \$500	14.86%	
Other		
\$250 or more	55.97%	81.80%
less than \$250	15.27%	18.20%
Total	100.00%	100.00%

The average tax liability of married couples filing jointly with liability less than \$500 is \$83. The average tax liability of others with liability less than \$250 is \$58 for taxpayers reporting in Column A of the tax form and \$81 for taxpayers reporting in Column B of the tax form. Taxpayers who do not itemize are assumed to have the same percentages and average tax liabilities.

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12. Based on Census data, the number of owner occupied primary residences grew 0.8% from 2002 to 2004. The same growth is assumed from 2004 to 2006, which is the year for which the credit will be available.
13. The following table shows estimated credits for married couples filing jointly and all other taxpayers, who do and do not itemize deductions, who have tax liability above and below the maximum credit, and who report on Column A and Column B of the tax form.

Reporting in Column A				Reporting in Column B		
2004 Tax	Number	Average Credit	Credits	Number	Average Credit	Credit
<b>Married Joint Filers</b>						
\$500 or more						
Itemizers	24,515	\$500	\$12,257,500			
Non-Itemizers	11,109	\$500	\$5,554,500			
less than \$500						
Itemizers	26,218	\$83	\$2,186,351			
Non-Itemizers	11,881	\$83	\$990,771			
<b>Other Filers</b>						
\$250 or more						
Itemizers	98,715	\$250	\$24,678,864	26,484	\$250	\$6,621,048
Non-Itemizers	44,736	\$250	\$11,183,888	12,002	\$250	\$3,000,505
less than \$250						
Itemizers	26,929	\$58	\$1,562,713	5,892	\$81	\$479,409
Non-Itemizers	12,203	\$58	\$708,185	2,670	\$81	\$217,257
<b>Total Credits</b>	<b>256,306</b>		<b>\$59,122,774</b>	<b>47,048</b>		<b>\$10,318,219</b>

14. The total amount of income tax credits associated with this bill is estimated to be \$69,440,993.
15. Section 30 of this bill is effective upon passage and approval and applies to tax years beginning after December 31, 2005. It sunsets December 31, 2006. Credits allowed by this bill would be for property taxes paid in tax year 2006 and would be claimed on income tax returns filed in the spring of FY 2007.
16. This bill would have no administrative impacts on the Department of Revenue.
- Department of Administration (DOA)**
17. The department of administration will contract with a private consultant to provide a facilities condition inventory (FCI) for the K-12 public school facilities.
18. The department of administration will provide State oversight for the project.
19. 1.5 FTE (1.00 grade 18 and .50 grade 9) and operating expenses will be required to provide the project oversight. The oversight is expected to cost approximately \$188K. Supporting documentation is provided in schedule 1 on the following page.
20. Section 1(1) of this bill is effective upon passage and approval. This section will be approved by the 2005 special session.
21. The department of administration will initiate the hiring process in January 2006 to select the 1.5 FTE required to provide the project oversight.
22. The department of administration will solicit bids to provide the FCI services and award a contract to the successful bidder by May 2006. The contract is expected to be approximately \$2.312 million.
23. The contractor will complete the FCI and prepare a report for submission to the State by November 2006.
24. The department of administration will report the findings and recommendations of the K-12 FCI to the 2007 Legislature.

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25. The 1.5 FTE will be terminated when the FCI project is completed, which is assumed to be June 30, 2007.

26. No new programs will be created. The State will utilize OTO funds to finance the FCI project.

FACILITIES CONDITION INVENTORY			
Description	FY 2006	FY 2007	Total
<b>PERSONAL SERVICES</b>			
Grade 18 - 1.00 FTE	39,398	78,796	118,194
Grade 9 - .50 FTE	9,023	18,046	27,069
	48,421	96,842	145,263
<b>OPERATING EXPENSES</b>			
1.50 FTE	14,243	28,485	42,728
Contracted Services	770,670	1,541,339	2,312,009
	784,913	1,569,824	2,354,737
<b>TOTAL</b>	<b>833,334</b>	<b>1,666,666</b>	<b>2,500,000</b>
<b>Notes:</b>			
Personal services include salaries <sup>1</sup> , benefits <sup>2</sup> , and the State insurance contribution <sup>3</sup>			
<sup>1</sup> Salaries are based on existing grade 9 and 18 staff as of October 1			
<sup>2</sup> Benefits include:			
FICA - Employer Contribution			
Worker's Compensation			
State Unemployment Tax			
Retirement - Employer Contribution			
<sup>3</sup> Based on the insurance contribution as of January 2006			
Operating expenses for the 1.50 FTE are based on the division's FY 06 operating budget			

## **FISCAL IMPACT:**

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
<u>Expenditures:</u>		
<b>Montana School for the Deaf and Blind</b>	\$750,000	\$750,000
<b>Office of Public Instruction</b>		
Scholarships to increase HS completion OTO		\$300,000
Local Assistance – District General Fund ongoing		46,574,000
Local Assistance – Retirement GTB ongoing		1,754,000
Weatherization/Maintenance appropriation OTO	\$1,000,000	0
Weatherization/Maintenance additional needed above The appropriated level OTO	23,000,000	0
Local Assistance – Indian Education for All	0	7,000,000
Total OPI	\$24,750,000	\$56,378,000
<b>Department of Administration</b>		
School Facility Inventory OTO	\$833,334	\$1,666,666
Energy Weatherization and Maintenance OTO	0	23,000,000
Total Department of Administration	\$833,334	\$24,666,666
<b>TOTAL ALL AGENCIES</b>	<b>\$25,583,334</b>	<b>\$81,044,666</b>

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	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Funding of Expenditures:</u>		
General Fund (01)	\$25,583,334	\$81,044,666
<u>Revenues:</u>		
General Fund (01)	\$0	(\$69,440,993)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General fund (01)	(\$25,583,334)	(\$150,485,659)

### EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. K-12 public school districts can respond to the funding increases provided in HB 4 by increasing general fund spending and/or providing property tax relief.
  - Districts that are currently spending at the BASE budget level will be required to increase spending.
2. County property taxes are estimated to increase by \$4.743 million in FY2007 to fund increases for county retirement.

### TECHNICAL NOTES:

#### **Office of Public Instruction (OPI)**

1. HB 4 states that districts must choose between the current law BASE method and the proposed quality BASE method before March 1. Currently Preliminary Data Sheets are due on March 1 because of the requirement that OPI provide preliminary GTB information to the districts. OPI will not have time to complete this work by March 1, 2006. The work involved includes: prepare the current BASE method with two ANB calculations (one using three years of enrollment data), create a computer program for the new method which uses many new components from uncharted data, and perform two calculations for consolidated districts.
2. By adding new sections to accommodate the new calculations, the bill duplicates certain areas that it would not have to, including GTB statewide calculations, special education calculations and unusual enrollment increase calculations.
3. The salaries in section 2 create higher costs than fit in the appropriation to the office of public instruction of \$31,621,716 for BASE aid or quality BASE aid. This appropriation will be short \$16.706 million.
4. The FY 2006 appropriation of \$1 million is insufficient to cover the costs generated in section 95 (2)(a). Actual costs are estimated at \$24 million. An additional appropriation of \$23 million would be needed.

#### **Department of Revenue**

5. Section 30 should clarify whether the primary residence must be owned by the income tax payer, and does the income taxpayer actually have to pay property tax on the residence to qualify
6. Unless the law explicitly states otherwise, a credit for taxes or other payments can only be claimed by the party who has the legal obligation to make the payment and actually makes the payment. Section 30 (1) is silent on this issue. This fiscal note assumes that only taxpayers incurring and paying property taxes on a primary residence are eligible for the credit. Tenants would not be able claim the credit for rented property, and landlords would be able to claim the credit for a rental property only if they lived in one of the units in the property.
7. The definition of "primary residence" in Section 30(2), unlike the current definition in 15-6-211 for the Disabled American Veteran credit, does not require the residence be owned and occupied by the taxpayer.

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8. Section 30 does not explicitly limit the credit to the amount of property taxes paid. This fiscal note assumes that all taxpayers will claim the maximum credit, or the full amount of their tax liability if it is less than \$250. Taxpayers with a property tax liability of \$230 and with an income tax liability of more than \$250 would get a credit of \$250.
9. Section 30 does not specify how taxpayers with the same primary residence are to be treated. This fiscal note assumes that both spouses in a married couple can claim the credit but that dependents can not claim the credit. However, Section 30 could be read differently.